

1 be ACH. The problem is, in other countries --
2 you might have a single country that might
3 have three different systems. Some people,
4 you have to hand them cash over a counter.
5 That's just the only way to get money to them
6 because they're just not banked at all. Other
7 people might have mobile money systems. And
8 you might have a country that has two or three
9 different mobile money systems that don't
10 inter-operate. That last mile of getting the
11 money into the customer's hands when it's
12 remittance, can be a pretty significant
13 challenge.

14 Q Does Ripple have involvement with
15 that last mile?

16 A In some cases, we have partnerships
17 where the xRapid customer will onboard with
18 some sort of payment company that will do the
19 last mile.

20 Q So the customer, what is required of
21 them? Do they need to have an account on the
22 sending exchange?

23 A They typically -- typically the
24 xRapid customer would need to have an account
25 with the sending exchange. They would need to

1 have some sort of a bank account that will
2 enable them to get funds into the sending
3 exchange. And it's important -- if that takes
4 three days, that kind of removes some of the
5 value. So it might be an exchange, an account
6 at the same financial institution or some way
7 to make that efficient. Then there's some
8 sort of relation -- it may be the exchange on
9 one end.

10 Like you may have an exchange that
11 can do the payouts themselves if they're
12 well-connected to an ACH-like system. Or it
13 may be that the payout is more complex than
14 that. There may be a payment partner who will
15 accept the Mexican pesos in the exchange and
16 will then -- the situation could vary. And I
17 think untangling that country by country, and
18 in some cases, receiving payment network by
19 receiving payment network, is kind of what
20 makes this challenging.

21 Q Talking about the initial step, is
22 there a benefit to having the customer
23 actually holding the XRP, holding a large pile
24 of XRP rather than just exchanging it for USD
25 when they need to make that transaction?

1 A There are advantages and
2 disadvantages. We constantly compare those
3 two approaches. The obvious disadvantage is
4 volatility. The price of XRP drops and --

5 Q The disadvantage of --

6 A Of holding a pile of XRP, sorry, to
7 be clear. If you hold a pile of XRP, its
8 value could change. That could be good. That
9 could be bad. It's a risk that you wind up
10 either having to hedge or accept. The
11 other -- but the advantage of holding the pile
12 of XRP would be that you eliminate all of the
13 complexity of the sending exchange.

14 So you don't have to worry about how
15 you get money to the sending exchange. You
16 don't have to worry about the sending exchange
17 has some sort of prob -- some sort of failure.
18 You don't need to worry if there's a delay and
19 then processing the withdrawal of XRP onto the
20 ledger. So it eliminates all of the issues
21 with the sending exchange. But it has the
22 compensating cost that you are more exposed to
23 the volatility of XRP.

24 Q Can Ripple hedge against -- provide
25 hedges against the volatility?

1 A Ripple could do that if Ripple
2 wanted to.

3 Q Has it discussed doing that? Or has
4 it done at all?

5 MR. CERESNEY: With who?

6 MS. WAXMAN: With customers.

7 A I believe we've had internal
8 discussions about doing it. I don't believe
9 it's something we've ever done with a
10 customer.

11 MR. CERESNEY: Just to be clear,
12 these are discussions you were involved in?
13 There may be others having other discussions?

14 THE WITNESS: Right. I wouldn't
15 necessarily be involved in a discussion like
16 that.

17 Q Well, how would you -- if Ripple was
18 to do it, how would Ripple hedge that
19 volatility?

20 MR. CERESNEY: How could Ripple?

21 A I think Ripple would just absorb the
22 risk ourselves. We already have such
23 significant exposure to the movement of the
24 price of XRP. I don't know that we would do
25 anything specific to hedge. I even hesitate

1 to say additional exposure because we
2 essentially already have unlimited exposure.

3 Q So you would just compensate them
4 for --

5 A I think that's probably what we
6 would do.

7 Q And in terms of just having the
8 customer holding a big pile of XRP, would that
9 save them money?

10 MR. CERESNEY: Save the customer
11 money?

12 MS. WAXMAN: Customer money.

13 A It would save them the cost of the
14 sending exchange. And it might get them a
15 better exchange rate because there's a
16 potential spread on the sending exchange. So
17 there could be advantages to doing it.

18 Q In the past, Ripple has sold XRP to
19 market makers, who were to sell. And the
20 customers were going to buy the XRP from the
21 market makers.

22 Why was Ripple doing that as opposed
23 to just having the customer hold XRP
24 themselves?

25 MR. CERESNEY: Let me just

1 understand the question. Are you talking
2 about programmatic sales?

3 MS. WAXMAN: No.

4 MR. CERESNEY: So I'm -- I don't
5 know if you --

6 MS. WAXMAN: I'll start over.

7 MR. CERESNEY: Maybe you can start
8 over.

9 MS. WAXMAN: I'll start over.

10 Q The company spoke a lot about XRP
11 liquidity and that it's needed for xRapid.

12 Can you explain to me why -- what
13 XRP liquidity means and why it's important for
14 xRapid.

15 A XRP liquidity, in that context,
16 means the availability to convert a fiat and
17 set an exchanged XRP. And then on the other
18 end, to convert XRP into a different fiat
19 asset to effectuate an international payment.

20 Q Without having an effect on price?

21 A It would not have a direct effect on
22 price because there's a buy and a matching
23 sell. Which from supply and demand
24 standpoint, cancel out. There could be
25 indirect or second order effects.

1 Q Why is XRP liquidity important for
2 xRapid?

3 A The product doesn't work if you
4 can't exchange fiat assets to and from XRP on
5 both ends.

6 Q Has Ripple engaged in efforts to
7 create and promote XRP liquidity in connection
8 with the xRapid product?

9 A Yes.

10 Q What role do market makers play in
11 that?

12 A Market makers make offers on
13 exchanges to buy and sell XRP. Usually, with
14 the goal of making some profit either between
15 the spread between the buys and the sells. Or
16 just between the spread of the rate that they
17 can get on the exchange versus a rate that
18 they can get on some other exchange.

19 Q Has Ripple provided XRP to those
20 market makers to make it easier for them to
21 make a market on certain platforms?

22 A I believe we leased XRP to market
23 makers. I don't know that we've sold or
24 gifted. I know there were discussions. I
25 don't know exactly which of those strategies

1 materialized. Although, my understanding is
2 that, at least more recently, we have leased
3 XRP to them.

4 Q The role that you described about
5 the market makers, do they play the same role
6 on the sending and receiving end?

7 A Substantially the same. It's
8 substantially the same role. There tends to
9 be a little bit of a difference. Not because
10 sending and receiving is different, but just
11 because the markets are different. Like the
12 market between U.S. dollars and XRP is just a
13 very different market from the market between
14 Mexican pesos and XRP. But technically, there
15 really isn't a difference.

16 Q I think you answered this
17 previously, but bear with me.

18 What role do the exchanges play?

19 That's where the asset is exchange for fiat?

20 A Right. So they provide a way for
21 the fiat to get in and fiat to get out. And
22 then they provide an order book where a trade
23 can be made between an XRP and some fiats.

24 Q Do speculators in XRP provide
25 liquidity for the xRapid product?

1 A Speculators only to the extent that
2 they elect to make markets. I guess you could
3 say a speculator who chooses to place an order
4 on the order book and then wait for that order
5 to be taken, would be creating liquidity. But
6 generally, speculators tend to interact with
7 exchanges where they consume existing
8 liquidity. They would have to be unusually
9 sophisticated to contribute liquidity.

10 Q Were you aware of efforts within
11 Ripple to promote speculative trading of XRP
12 in 2017?

13 A No.

14 Q Were you aware of efforts within the
15 company to promote speculative trading of XRP
16 at any point in time?

17 A No.

18 Q Does xRapid need people to
19 speculate -- does xRapid need people to
20 speculate in XRP in order to function?

21 A No.

22 Q Why not?

23 A As long as there are market makers,
24 there has no need for speculators. Someone
25 just has to be willing to take the other side

1 of the trade.

2 Q When MoneyGram sends a payment to
3 Mexico, sends USD to Mexico, who is buying the
4 XRP on the receiving end?

5 A It would typically be a market
6 maker. Someone who is -- there's two things
7 that could be. And it's hard to know because
8 I can't look into the exchanges to see their
9 data. There could be a speculator doing that.
10 There could be someone who wants to buy XRP
11 for Mexican pesos for speculative purposes. I
12 doubt that's significant because I just don't
13 think there are that many people who happened
14 to be speculating for Mexican pesos. But that
15 certainly could be happening.

16 Q Well, not just the Mexico corridor,
17 let's talk about all the corridors in general.

18 A Right. If you are imagining in the
19 USD corridor, there could be more people --
20 there could be speculators who are selling XRP
21 who then are buying it as parts of the ODL
22 flow. But I doubt that that's particularly
23 significant. My expectation would be that
24 there would be two major parties.

25 So one would market makers. Those

1 are people who are either making markets
2 between XRP and other fiat and crypto assets.
3 Or people who are exploiting sort of a
4 difference in the -- a difference in the price
5 between Mexican pesos in Mexico versus Mexican
6 pesos elsewhere.

7 I think the other thing could be
8 people who have counter flaws. Although, it's
9 hard to know how much of that is. How of the
10 volume that is. So for example, let's say you
11 had a bunch of grocery stores in Mexico but
12 you lived in the United States. One of the
13 ways that you could get Mexican pesos out of
14 Mexico and into the United States, would be to
15 buy any cryptocurrency, it could be XRP, it
16 could be Bitcoin, and then take the Bitcoin
17 out of the country and then sell them here.

18 And then instead of paying what
19 might be as much as five percent to have
20 somebody move that money for you, you might
21 even be able to do it at less than spot.
22 Because it's a counter to sort of the
23 predominant flow. So people who have counter
24 flows -- I think we've seen some evidence that
25 people who have counter flows find these

212

1 systems and use them to move that money.

2 Q Do you have to pay market makers to
3 buy the XRP? Did Ripple have to kind of
4 incentivize or pay market makers to create
5 markets on certain --

6 A There have been times where we have
7 incentivized market makers either by leasing
8 an XRP. There may have been direct payments
9 to increase the amount of liquidity in
10 particular places where that was an issue.

11 Q How do you know when you don't --
12 Ripple no longer needs to do that?

13 A The easiest way is to look at the
14 spread. So you look at the sort of -- so you
15 look at -- when you look at an order book, you
16 have the spread between the buy and the sell
17 prices. If you look, not right at the very
18 tip, but if you look just down a little bit --
19 like if someone is making a six hundred-dollar
20 payment, if they're going to be significantly
21 increasing the spread, then there really isn't
22 enough liquidity to make that corridor viable
23 on that exchange.

24 You may have a very common situation
25 where, for example, let's say you're going USD

1 to MXN again. The USD to XRP side of the
2 market is very mature and healthy and there's
3 no reason to do anything. There's plenty of
4 market makers participating. Whereas on the
5 MXN side, that market may be very immature and
6 nascent. And so you may have to incentivize
7 market makers in the hopes that people who
8 have counter flows or people who see the
9 opportunity to make money in that market, will
10 then join that market and create organic
11 liquidity.

12 Q Does Ripple still need to
13 incentivize market makers to create markets in
14 certain corridors?

15 A Yes and no. We need to sustain
16 the volumes that we are trying to sustain. We
17 are trying to sort of grow the volumes in many
18 of those corridors. And so paying market
19 makers to grow the liquidity to enable us to
20 rent the volume more rapidly, means that we
21 couldn't grow the volume as rapidly.

22 But if we didn't incentive market
23 makers, those corridors would still work.
24 They just wouldn't work at the volume levels
25 that we are attempting to use. So it's a part

1 of -- it's sort of part of the scaling
2 process.

3 Q So you could stop paying the market
4 makers or stop incentivizing the market makers
5 to create liquidity and liquidity would occur
6 on its own, just at a slower pace?

7 A Right. Potentially smaller amounts.
8 Potentially at higher costs. And so on. That
9 would slow the rate at which we can grow. And
10 then it wouldn't matter how much liquidity you
11 had on the other side. You might have all
12 this liquidity on the other side that could
13 save you money, but can't take advantage of it
14 because there isn't liquidity on the other
15 side.

16 Q So the only downside really is the
17 company would not be able to grow the product
18 as quickly as it would have liked?

19 A That's correct.

20 Q Any other downside?

21 A I don't think so. Well, I --

22 Q Today, do you envision a time where
23 Ripple does not need to pay anymore -- strike
24 that.

25 Instead of -- instead of selling the

1 XRP, why can't Ripple just give the XRP away
2 to either market makers or ODL customers?

3 A That certainly something that we
4 could do. The downside is that when you just
5 sort of give something to someone, it tends --
6 what tends to happen is they tend to be
7 incentivized just essentially to extract value
8 from it very directly. And when they can
9 immediately just turn around and sell it, it
10 just doesn't work. It becomes effectively the
11 same as if we just sold it.

12 Q I can understand that, perhaps a
13 market maker doing that. But what if you gave
14 it just to the customer who has an incentive
15 to use it and not, you know, work the system?

16 A I mean, you could do that. The
17 danger is -- the danger is when you pay
18 somebody to do something, they will do it even
19 if it's painful to them. Like if I offered
20 you \$50.00 to do something, even if it cost
21 you \$40.00 to do it, you might do it because
22 you pocket \$10.00.

23 And then you are not really proving
24 that the use case is viable. You are not
25 really incentivizing adoption. People are

1 just suffering your product. And I think we
2 have to be very cognizant that we don't --
3 like reward people for doing things so
4 heavily, that they're doing things that are
5 not getting them any actual benefit. And you
6 get sort of the appearance of activity and
7 growth and progress, and you don't actually
8 have it.

9 I think it's important that people
10 who buy into the value sort of have -- you
11 know, are committed to getting some value out
12 of it rather than just going through motions
13 to receive some sort of a very significant
14 reward. I think the benefit has to come from
15 the benefits of the product. It can't -- the
16 whole benefit can't just come from essentially
17 us giving them something of value.

18 MR. DANIELS: Are you able to give a
19 concrete example using a giveaway to an ODL
20 customer as to what you just described? That
21 it would create all these problems?

22 THE WITNESS: I know there was one
23 case where like we had an adoption marketing
24 incentive for a customer. We also had like a
25 signing incentive. And we also had an

1 incentive for them to go live at a certain
2 time. And we also had a volume incentive.
3 And we didn't really coordinate. And someone
4 just looked at it like, wait a minute. Does
5 this customer -- is this customer getting any
6 actual -- like have we structured the deal to
7 make sure that the customer gets actual
8 benefit from the product.

9 That their motivation isn't to get
10 all of these incentives. I think that was one
11 that slipped through the cracks. We're
12 generally pretty good about being more careful
13 about that. But I think that if you pay
14 people to do things, they'll do them.

15 MR. DANIELS: In the case of a
16 customer like MoneyGram. When you say you are
17 paying them to do things, wouldn't they be
18 using the product more?

19 THE WITNESS: Yeah. And it's
20 important to make sure that the -- that the
21 benefit, at least like a significant fraction
22 of the benefit that they're getting is from
23 their use of the product. Not just from all
24 of the incentive that you are giving them.
25 You just have to be careful not to

1 over-incentivize something. Because if the
2 incentive you give them is enough that they'll
3 do it even if the product hurts them, you
4 know, that is -- that doesn't do anything for
5 you.

6 Q Yes, but hasn't Ripple demonstrated
7 and validated the use case for XRP as a
8 payment?

9 A I believe so.

10 Q So I mean, isn't there value in the
11 product already?

12 A Yes.

13 Q Value in XRP?

14 A Yes.

15 Q So why can't you give away the XRP?

16 MR. CERESNEY: I -- okay.

17 THE WITNESS: Do you want me to
18 answer?

19 MR. CERESNEY: No. No.

20 THE WITNESS: I know you don't.

21 MR. CERESNEY: You don't need to
22 answer. It's a hypothetical. It's not really
23 necessary.

24 Q How does Ripple make money from
25 xRapid?

1 A X -- well, the only direct way that
2 Ripple makes money from xRapid is that xRapid
3 increases the value of RippleNet, the value of
4 xCurrent. The promise that we made to people
5 when we built xRapid and like the vision that
6 we sold to them, was that we would enable them
7 to settle with something other than
8 correspondent banking.

9 Let me just back up a little bit. In
10 the pitch for xCurrent, there's kind of two
11 halves to it. One is, today, this is a better
12 payment messaging system. You should use
13 xCurrent today because it's a better messaging
14 system. You have immediate messaging. You
15 don't have errors because you have this sort
16 of bilateral messaging system. But also,
17 Ripple has a vision for international
18 payments. Like settlement using a
19 cryptocurrency and micropayments and building
20 these sort of open platforms.

21 xRapid was kind of the first time
22 that we basically said to the xCurrent
23 customers, like we are actually delivering on
24 that vision we shared. We're actually -- we
25 are not just providing -- some people call it

220

1 SWIFT 2.0. We're not just providing a better
2 messaging system to move money the exact same
3 way that you always have. But they were
4 starting to deliver on our promise to enable
5 new means of settlement.

6 Q Right. So I'm not talking about
7 xCurrent. Because I understand the company
8 charges fees for the use of xCurrent, the
9 messaging product.

10 A Right.

11 Q I'm talking about, does Ripple
12 charge a service fee for xRapid?

13 A I -- I believe there's a license
14 fee. I don't know -- I don't know if there
15 are other usage fees.

16 Q When did that -- when did that
17 practice begin?

18 A As soon as xRapid came to market.

19 Q And is it a significant fee?

20 A I suspect not. I don't know for
21 sure. The angle is that xRapid increases the
22 utility of xCurrent.

23 Q Okay. The more that XRP is used in
24 xRapid, the more demand for XRP, correct?

25 A I don't -- not -- that's not a

1 direct effect. That may be a second order
 2 effect. Remember, in an xRapid transaction,
 3 you are buying and selling the same amount of
 4 XRP. So it isn't a direct contribution to
 5 demand. So that would be a potential second
 6 over-effect. It would not be a direct effect.

7 Q Is that what people have been saying
 8 that -- I've heard people say that xRapid is
 9 demand neutral?

10 A Right. That's correct. There's a
 11 buy and sell for substantially the same
 12 amount. So there's no net increase in demand.

13 Q In general, the more people use the
 14 product, the more XRP is needed and --

15 A You could expect that an increase in
 16 liquidity or an increase in utility could lead
 17 to a sort of second order effect of an
 18 increase in demand. People might want XRP
 19 because it is very liquid and is very easy to
 20 move between other assets. But that would be
 21 sort of a very indirect effect. It wouldn't
 22 be a direct effect.

23 Q Is the fact that xRapid is seen as
 24 demand neutral a problem for Ripple?

25 A I don't think so.

222

1 Q Are there other ways that Ripple can
2 try to increase demand for XRP?

3 A I don't think there are ways other
4 than improving the utility of the XRP Ledger.
5 Making it easier for people to use the XRP
6 Ledger. Increasing liquidity. Encouraging
7 other people to build on top of the XRP
8 Ledger. Like I think those are all sort of
9 indirect, but I don't think there's any direct
10 way.

11 Q What about promoting alternate use
12 cases for XRP?

13 A I think promoting alternate use case
14 for the ledger, which then sort of brings
15 people in to using the XRP Ledger, could
16 indirectly increase demand for XRP. But you
17 can't really draw a straight direct line
18 between them.

19 Q Earlier, we spoke about Xpring and I
20 think you said that, correct me if I'm wrong,
21 that Xpring initiatives were aimed at
22 increasing use of the ledger?

23 A Yes. And I also said that it's
24 increasing sort of adoption in the
25 cryptocurrency space generally. Obviously

1 there's a focus on the XRP Ledger and the
2 Interledger protocol. Which are two of the
3 technologies that Ripple is particularly
4 interested in, but it's also aimed at the
5 space generally.

6 Q Is there focus on the XRP, the
7 asset?

8 A There is a focus on XRP the asset.
9 As sort of -- as sort of core. Particularly
10 on the liquidity side as sort of an
11 intermediate asset between other assets.

12 Q Has the company promote -- are
13 Xpring investments structured in a way that
14 promotes XRP?

15 A I don't think that's true in
16 general.

17 Q I don't think promote is the right
18 word.

19 Are they structured so that
20 people -- it's easier for people to develop
21 with XRP?

22 A Yes.

23 Q Did you have any involvement in the
24 decision to put Ripple's XRP into escrow?

25 A Yes, I did.

1 Q What was your involvement?

2 A There were conversations about what
3 would be required technically, what the
4 parameters of the escrow would be and so on.
5 And I -- I mostly participated in the
6 technical conversations of how we would
7 actually do it. And to a lesser extent, I was
8 present at conversations involving like should
9 we have an escrow, how much, what should the
10 terms be. The sort of non-technical
11 parameters.

12 Q What were the non-technical reasons
13 for establishing the escrow?

14 A The non-technical reason was there
15 was a concern that Ripple might, at some
16 point, like sell an enormous amount of XRP.
17 People were -- people were creating somewhat
18 fanciful scenarios like Ripple declares
19 bankruptcy and a court orders all of Ripple's
20 XRP liquidated immediately. So it was to
21 respond to those kind of scenarios and just
22 sort of eliminate that risk.

23 Q How would sales -- how would
24 Ripple's massive sales effect the price of
25 XRP?

1 A Ripple held enough XRP that if
2 Ripple sold all of its XRP in a short period
3 of time, the price would essentially go down
4 to zero.

5 Q Did the company believe that the
6 escrow announcement or the establishment of
7 the escrow would have a positive effect on
8 XRP's price?

9 A I don't know that anyone did.
10 Speaking for myself, I did not think it would.

11 Q What sort of positive effect did you
12 think it would have?

13 A I didn't. I didn't think it would
14 have a positive effect. I thought it
15 addressed -- I thought it addressed an
16 objection that people only raised in bad
17 faith. I didn't think that -- if a person
18 makes an argument in bad faith, they'll just
19 switch to another argue and another argument.
20 There's a boundless supply of bad arguments
21 that you can make. And I think the people who
22 are arguing that like "Ripple could go
23 bankrupt and dump all of its XRP" would simply
24 switch to another argument. And it would not
25 be any material effect.

1 Q Did you think the escrow would
2 provide more predictability for XRP holders
3 regarding, you know, how much XRP Ripple could
4 sell?

5 A I think it would because it's set a
6 floor. I mean, that floor was enormous. It
7 was a billion XRP a month. Which, at the time
8 we did it, was pretty close to infinite. I
9 think a more short-term practical effect was
10 that it guaranteed that Ripple would be sort
11 of in possession of XRP for a couple of years.

12 I think that was -- because the
13 amount was so large, that while it did set a
14 floor, that floor was so high that it was
15 more -- it was more, at least from my
16 perspective, it was more the time frame that
17 was important than the amount.

18 Q Did it eliminate overhang?

19 A I think -- yeah, I think that's what
20 we were talking about. Yeah.

21 Q And what effect would that have on
22 price?

23 A I didn't expect it to have one.
24 Again, because the objections that it
25 addressed were very fanciful.

1 Q Did others in the company expect it
2 to have an effect, a positive effect on price?

3 A I don't think so.

4 Q Did Ripple engineers, including
5 yourself, develop and write code for the
6 escrow function?

7 A So I want to break that into two
8 pieces. So XRP Ledger code and then code that
9 Ripple would use to actually sort of
10 effectuate. We wrote -- XRP Ledger code, we
11 wrote a feature called escrow. That could
12 be -- that was a general -- a general purpose
13 escrow function. But it could also be used
14 for like a time lock.

15 So we developed a general purpose
16 escrow feature that could also be used for
17 Ripple's time lock. That's kind of why it's
18 called an escrow. Although escrow is not a
19 very precise word. It's more like a time lock
20 than an escrow. But it uses the ledger's
21 escrow feature, and that feature was developed
22 by engineers at Ripple. We also developed the
23 software to actually effectuate the escrow, to
24 actually put funds in escrow.

25 Q So somehow the code for the escrow

1 had to be integrated into the ledger?

2 A Correct.

3 Q That's what Ripple engineers did?

4 A Right.

5 Q How long did it take Ripple
6 engineers to do all of that?

7 A It was a couple of months. I can't
8 tell you exactly offhand. I would estimate
9 around three months.

10 Q How many engineers?

11 A Probably two or three.

12 Q Was it a heavy lift?

13 A No, not particularly.

14 Q Did you need to get consensus from
15 the community to add it?

16 A Yes.

17 Q What function does the escrow serve
18 today?

19 A I think it's substan -- I mean, the
20 escrow of Ripple's XRP specifically, I think
21 still serves substantially the same function
22 that it always did previously. I think it has
23 also provided one other interesting function.

24 Which is, by looking at the amounts of XRP
25 that goes back into escrow, you know how much

1 comes out and you know how much comes -- you
2 know how much goes out and you know how much
3 comes in.

4 So it does provide a very easy way
5 to understand the movement of XRP on the
6 ledger. Whereas before, you could obtain that
7 same information, the ledger's public. It's
8 just it was just spread out in more places and
9 so someone would have to sort of synthesize
10 it.

11 Whereas here, you could say on a
12 month-to-month basis, a billion XRP came out
13 of escrow. Nine hundred twenty-three million
14 went back in escrow. And so there's a delta.
15 So it provided an easier way for people to
16 understand how Ripple was using XRP. But
17 otherwise, unchanged.

18 Q So it provided more transparency in
19 the distribution of Ripple's XRP?

20 A Without having to -- right. Without
21 having to sort of dig into details. You could
22 still -- you could still have obtained that
23 information, it just would have been more
24 difficult. So in practice, someone else would
25 have had to produce a report. Whereas now,

1 it's much easier for people to see the
2 information without having to process it.

3 Q Today, Ripple discloses how much XRP
4 they sell and how much is released from the
5 escrow, correct?

6 A Correct.

7 Q Where do they disclose that?

8 A We disclose that in the markets
9 reports. But it's also available on the
10 ledger.

11 Q Is it easily discernible how much
12 XRP is used in connection with investments?

13 A I'm not -- do you mean like by
14 Ripple? Or do you mean --

15 Q Yeah. When Ripple or Xpring invest
16 and XRP is part of the deal, and XRP is
17 transferred to, for example MoneyGram or
18 something like that --

19 A You could see on the ledger the XRP
20 leaving Ripple's accounts. It is known which
21 accounts belong to Ripple. But you wouldn't
22 necessarily know the context of that
23 transaction. You wouldn't know the recipient
24 or you wouldn't know the purpose unless that
25 was disclosed.

1 Q You wouldn't know how many
2 recipients if it was one or more or anything
3 like that?

4 A You could try to infer that, but you
5 would do that at some risk. For example, if
6 saw two payments be made, you might or might
7 not know whether they were to the same
8 recipient. You would have more limited
9 information. You would be able to know how
10 much moved and you would have some general
11 information. But you wouldn't necessarily
12 know the business context.

13 Q What do you think would happen if
14 Ripple did away with the escrow?

15 MR. CERESNEY: Another hypothetical.

16 MS. WAXMAN: I'm just asking -- it's
17 not a hypothetical. I'm just asking his
18 opinion of what would happen if --

19 A I'm trying to imagine what you mean
20 by "did away with the escrow." We can't remove
21 the XRP from escrow. So I'm not sure I
22 understand what scenario you are
23 contemplating.

24 Q Why not?

25 A Because the ledger rule doesn't

232

1 allow -- ledger rules don't allow the XRP to
2 move until the time lock ends.

3 Q Can that be undone?

4 A You can change anything in software.

5 The problem is, you have to convince people to
6 run that software. So ripple would have to
7 convince exchanges, other people operating on
8 the XRP Ledger, the cryptocurrency community,
9 to make that change. And it seems unlikely
10 that they would.

11 Q Why would they not want to adopt
12 that change?

13 A I think there's a very strong
14 general bias against any change. Because to
15 many people, the value proposition of a
16 decentralized ledger or public blockchain is
17 that it will function the same tomorrow as it
18 does today.

19 The idea that you can rely on it to
20 be neutral and decentralized and follow the
21 same rules. And so any radical -- any change
22 beyond just adding the functionality -- and in
23 some cases, even adding functionality, has a
24 very high bar to pass through to get
25 acceptance.

1 Q I understand that.

2 But what about the escrow itself
3 that people wouldn't want to change?

4 A It's just a big change to settle --
5 like long-term settled expectations, I think
6 there's a heavy bias against anything that
7 sort of changes people's settled expectations
8 about how things function.

9 I think there's a very bright line
10 between new functionality and changing
11 people's expectations of how the system would
12 continue to work. I think that would be on
13 the same level as creating more XRP. It would
14 just be such a drastic change in people's
15 expectation of how the system works.

16 If you could make those kinds of
17 chances, the system would lose its value
18 because you couldn't rely on it anymore. And
19 obviously everyone who is a stakeholder
20 doesn't want it to lose its value. It's hard
21 to get people aligned to destroy the value
22 that causes them to align.

23 Q Do you think it would, whether or
24 not this is incidental, cause a decrease in
25 the price of XRP?

1 A I think any radical change that was
2 not adding a new feature, that disrupted
3 settled expectations in a public blockchain,
4 would result in a loss of confidence in the
5 asset. Which would probably be reflected in
6 the drop of price. I don't think that's
7 unique to XRP in any way. That's just the
8 nature.

9 Q Did you ever receive XRP as part of
10 your compensation or as a bonus?

11 A I did.

12 Q When was the first time that you
13 received XRP as compensation or bonus?

14 A As I mentioned previously, I had a
15 recollection of receiving [REDACTED] XRP very
16 early. But I was unable to locate those
17 records. It may have occurred on a prior
18 ledger. I may be misremembering.

19 I did participate in some of the
20 early giveaways, which would have been roughly
21 [REDACTED] XRP. And then there were
22 the three incidents that I disclosed in the
23 document that you have.

24 MS. WAXMAN: I'll introduce it. It
25 may be easier.

1 (SEC Exhibit No. 80 was
2 marked for
3 identification.)

4 Q Mr. Schwartz, I'm showing you what's
5 been marked as Exhibit number 80. Which is
6 information provided to us through your
7 counsel about XRP that you received from the
8 company since 2013.

9 A Yes.

10 (The witness examined the document.)

11 A Let me just say that there are two
12 typo in this document.

13 Q Whose fault?

14 A You know, it's funny, I wanted to
15 look that up. We had this same conversation
16 of was it me or was it them. The [redacted] is missing
17 on two of these accounts, the leading [redacted] But
18 you can easily cross-reference them with my
19 accounts that you have on the other -- it's
20 very obvious that it's a typo that the [redacted] is
21 missing.

22 Q Is it on the 2020?

23 A Both on the 2020 and on the

The _____ is missing.

Q If I were to enter this address with

1 the [redacted] up front to see the balance that you
2 received, where would I do that?

3 A You could do that -- there's a
4 company called [redacted] that has an explorer
5 that makes it very easy to do that. I think
6 we have one. I think it's xrpccharts.com. It
7 may be xrpccharts.ripple.com. But any
8 Ripple -- you can just search for like XRP
9 Ledger explorer and you can find.

10 Q Well, that explains why it didn't
11 work for me previously.

12 A I apologize for that. It probably
13 was Counsel's fault.

14 MR. CERESNEY: Thank you. I take
15 full responsibility.

16 A But you also have a list on another
17 document of all of my accounts. And these
18 accounts appear on that list. So I hope you
19 were able to find it.

20 MR. CERESNEY: It's okay.

21 THE WITNESS: I'm sorry. I'm --

22 MR. CERESNEY: I'm under the bus.
23 That's fine. All good.

24 Q How did it happen that you received
25 the XRP in 2018?

1 A My recollection is that that was a
2 company-wide bonus. That was offered to every
3 employee at that time.

4 Q What was the amount of XRP before
5 withholding taxes?

6 A It was [REDACTED]

7 Q And then how did it happen that you
8 received the [REDACTED] in June 2019?

9 A That's correct. That was -- that
10 was a bonus. I believe similar bonuses were
11 made to other members of leadership.

12 Q And was it an option to purchase
13 [REDACTED] XRP?

14 A No.

15 Q It was just a grant of [REDACTED]
16 XRP?

17 A Correct. And that's why so much was
18 withheld.

19 Q How did you agree on the value?

20 A I believe that determination was
21 made by Ripple. And then once they made it, I
22 had no reason to dispute it.

23 Q What is it based on?

24 A I don't know. I hope [REDACTED]
25 XRP times whatever the price was at that time,

1 comes out to close to that amount. But I
2 don't know for sure.

3 Q Were any amounts withheld for taxes?

4 A Yes. So I actually received

5 [REDACTED] XRP. And the balance was withheld
6 to cover the taxes.

7 Q Did Ripple sell the balance for cash
8 and then pay taxes with it?

9 A They either did that or on their
10 books sort of did the equivalent, paid it out
11 of cash. And just didn't transfer the XRP. I
12 don't know for sure that there was an actual
13 sale.

14 Q What are the circumstances for the
15 2020 XRP?

16 A That was another company-wide bonus.

17 Q How much XRP?

18 A 2,020. I believe there was -- I
19 believe there was no --

20 Q Is there a comma missing here?

21 A Yeah. Maybe, yeah. I believe there
22 was no withholding on that. And I believe
23 that the company just covered out of its
24 own -- its own -- as additional compensation,
25 the taxes on that. I'm not sure.

1 Q Other than the initial request that
2 we spoke about earlier today, did you ever ask
3 for any other XRP to be paid to you as part of
4 compensation or a bonus?

5 A Other than the compensation
6 surrounding the June payment, and very early
7 conversations about rethinking the original
8 distribution of XRP, there were no other
9 compensations.

10 Q The June payment, was that something
11 that you -- did you initiate that
12 conversation?

13 A I believe Brad -- I believe Brad
14 initiated the conversation with many different
15 members of the leadership team.

16 Q Who else, as far as you know,
17 received XRP?

18 A I don't -- I don't know. In fact,
19 I'm not really sure where I got the impression
20 that it was also made to other members of the
21 leadership team. But I do have that
22 impression.

23 Q Have you ever purchased XRP on
24 exchanges or over the counter?

25 A I'm sure I -- I'm sure I have. My

1 usual practice was to trade Bitcoin. The way
2 I usually accumulated XRP was to trade Bitcoin
3 for XRP. I think a lot of that was on the
4 ledger's decentralized exchange. I'm pretty
5 sure at least some of that was in exchanges.
6 But I don't specifically recall exactly.

7 Q How much XRP did you purchase or
8 exchange?

9 A I eventually acquired a peak of
10 about [REDACTED] XRP.

11 MR. CERESNEY: Approximately?

12 THE WITNESS: Yeah.

13 MR. CERESNEY: Well, you should add
14 that if that's the case.

15 THE WITNESS: Yeah.

16 MR. CERESNEY: Approximately.

17 Q During what period did you acquire
18 that?

19 A I think that the run up of 2013
20 through to 2015. I -- I think. I don't have
21 the --

22 Q Well, if you look at Exhibit 74,
23 this was produced by your counsel and I
24 understand that this is a compilation of all
25 your sales since January 1, 2014.

1 A That's correct. Right. And the
2 first couple of sales were probably while I
3 was still accumulating XRP. They were just
4 sort of incidental. They weren't sales of XRP
5 for the purpose of like taking profits out of
6 the market or anything like that. They were
7 just sort of incidental. I think I was still
8 accumulating XRP during that phase.

9 Q I calculated, on the back,
10 approximately [REDACTED] in proceeds from
11 the sales of -- I think it's about [REDACTED]
12 or [REDACTED] I can tell you
13 exactly. Hold on --

14 A It says [REDACTED] on this document.

15 Q That's -- I think the total
16 proceeds. But I'm talking about the number of
17 XRP sold.

18 So I have a grand sum of [REDACTED]

19 [REDACTED]
20 A So that means there must have been
21 some overlap between the sales and the
22 acquisition. Because I believe I had -- or
23 I'm remembering incorrectly. I believe the
24 maximum XRP I ever held was about [REDACTED]

25 [REDACTED] There may have been some overlap

1 between -- a little bit. And so that might
2 account for the difference. But I'm not
3 absolutely sure.

4 (SEC Exhibit No. 81 was
5 marked for
6 identification.)

7 Q I'm showing you what's been marked
8 as Exhibit 81, which is just a table that we
9 created, the staff created using that
10 information in Exhibit 74. And you'll see,
11 it's a breakdown of your sales of XRP by
12 month, by year. And it also includes the
13 weighted average price for the sales on a
14 monthly basis.

15 (The witness examined the document.)

16 A I see that.

17 Q Did you have any particular trading
18 strategy with respect to the XRP?

19 A I had -- I had a couple of different
20 strategies at different times. Initially, my
21 strategy was to move between XRP and --
22 between Bitcoin and XRP during the early
23 accumulation stage. To move between Bitcoin
24 and XRP whenever the exchange rate was
25 unusually high compared to how it had recently

1 been. So I didn't buy in all of a sudden at
2 any one point. I sort of gradually diversified
3 from holding almost exclusively Bitcoin, to
4 holding a portfolio that included Bitcoin, XRP
5 and numerous other cryptocurrencies. And I
6 kind of did that -- I kind of did that
7 gradually because I didn't know how these
8 projects would turn out.

9 MR. CERESNEY: It might help if he
10 explained why he did that.

11 MS. WAXMAN: Sure.

12 A Yeah. Initially, I was holding only
13 Bitcoin because it was the only digital
14 currency that there was. And then as other
15 digital currencies came to prominence and I
16 thought that they were interesting projects, I
17 kind of diversified what I was holding to kind
18 of bet on the space generally. And also have
19 the assets to actually interact with these
20 various ledgers.

21 Then over time, when the amounts
22 became financially significant -- previously
23 to this, the amounts were certainly not
24 anywhere near what they were later -- it came
25 to the point where I had a significant

1 fraction of my net worth, almost all of it, in
2 digital asset. Which could crash to zero any
3 day, all kinds of uncertainty.

4 Then I started to -- I started to
5 use a strategy that I previously agreed with
6 my wife that we would do. If the amounts ever
7 became significant, that as the market hit new
8 highs, we would sort of reduce our exposure to
9 possible drops in the price.

10 And then I think there's also a
11 little bit of a short-term strategy, like a
12 sub-strategy, inside. There were times when I
13 was actively making markets between XRP and
14 Bitcoin or between XRP and U.S. dollar.
15 Particularly on the ledger. And sometimes
16 those strategies had a bias in favor of like
17 converting Bitcoin to U.S. dollars or
18 converting XRP to U.S. dollars or XRP to
19 Bitcoin. As I -- so I sort of, at times,
20 gradually balanced by market making.

21 Q Why were you making markets on the
22 ledger?

23 A Two reasons. One of them was a
24 way -- well, the main one was just to improve
25 the liquidity on the ledger to make it easier

1 for people to exchange assets, to prove that
2 it worked. And also, to understand the
3 mechanics of the ledger better myself.

4 Q So those instances that you spoke
5 about where the price got high and you sold,
6 if you look in January of 2018 --

7 A Yes.

8 Q -- you sold over [REDACTED] for
9 over [REDACTED] dollars.

10 A I just want to point one thing out.
11 I don't -- are these -- are these prices,
12 prices from Bitstamp? Because these amounts
13 seem larger than --

14 Q These prices were taken from the
15 platform, to my understanding. I didn't do it
16 myself. Someone from the staff did it.

17 A Because what it seems to me, and I
18 could be remembering wrong. But just my
19 intuition looking at this is that those
20 amounts are at least a little bit larger than
21 I remember. And I suspect -- and I could be
22 wrong about this. But I suspect that what
23 happens if you grab the prices from
24 CoinMarketCap, during that time period of
25 December of 2017 through January 2018,